

# **MEETING SUMMARY NOTES**

## **Finance Work Group**

*March 27, 2003*

*3:30 p.m., Room 113, County-City Bldg.*

**MEMBERS:** Present - Brad Korell, Lowell Berg, Ron Ecklund, Keith Brown, Bob Hampton, Mark Hesser, Connie Jensen, Dan Marvin, Polly McMullen, Kent Seacrest, Tim Thietje, Terry Werner, Larry Zink,  
Absent - Jim Budde, Richard Meginnis, Tom Schleich, Roger Severin, Otis Young, Allan Abbott (nonvoting)

**OTHERS:** Kent Morgan, Lauren Wismer, Bill Giovanni, Don Herz, Jan Gauger, Peter Katt, Hallie Salem, Jon Carlson, Duncan Ross, Michele Abendroth

### **AGENDA ITEMS DISCUSSION:**

#### **1. Welcome - Brad Korell, Work Group Chair**

Mr. Korell called the meeting to order at 3:34 p.m. and welcomed those present.

#### **2. Meeting Summary Notes - March 12, 2003**

#### **3. Meeting Summary Notes - March 19, 2003**

Mr. Korell asked if there were changes to the meeting notes from the March 12, 2003 meeting or the March 19, 2003 meeting. None were suggested.

#### **2. Public Comment Period**

Mr. Korell asked if there were members of the public present who would like to address the Work Group at this time. There were none.

#### **4. David Miller (PFM) - Financing Options**

Mr. Korell then pointed the group's attention to the handout before them entitled *Street Financing Options Review – Finance Work Group Score Sheet* which also included the funding source/financing options. He suggested that the group members make notes on the sheets and bring it to subsequent meetings.

Mr. Korell then introduced David Miller of Public Financial Management. He stated that Mr. Miller has been with Public Financial Management since 1988, has a Bachelor of Science Degree in Finance, a Master of Public Administration Degree, and has worked with a number of municipalities. He asked Mr. Miller to describe his work background. Mr. Miller stated that they help municipalities structure financing and serve as financial advisor for LES. They are a national firm and serve many transportation customers across the country. He stated that he had reviewed the document mentioned above and stated that it is a comprehensive list.

Mr. Miller drew the group's attention to a handout before them which he had prepared; it was entitled *City of Lincoln, Nebraska, Transportation Financing Alternatives Analysis*. He stated that he would proceed by reviewing the funding sources derived by the group.

He began with General Obligation bonds. Mr. Miller stated that GO bonds are the most common type of bond that cities and counties issue. At the municipal level, typically they are associated with property taxes. You have to guard against raising property taxes too much and issuing too many general obligation bonds. The revenue estimate at an additional 5% property tax was \$1,750,000. He then explained how he derived his estimates. The revenue used in his estimates was provided by Mr. Korell. When you issue debt, you typically have a debt service coverage requirement. Depending upon the perceived credit quality of a given revenue source, you can only borrow a certain percentage of that revenue. For a general obligation bond, you really do not have a coverage requirement except for prudent budgetary purposes. He used a coverage rate of 1.10x. Scale is an interest rate. We used market indications of interest rates; MMD is the municipal market data and is a widely used indicator of where municipal taxes and rates are. DSRF is the debt service reserve fund. He stated that it is common to have to hold back a reserve exclusively to pay debt service in the workplace scenario. In municipal finance, you typically do not need reserve for GO bond, but almost every other type of revenue bond, you do have a reserve requirement. Under Insurance, credit enhancement is common in the municipal industry. You do not need to credit enhance a "AAA" GO bond because that is the highest level. Using these assumptions, he looked at a 20 year bond and a 30 year bond. Depending on the coverage level, you have more or less amounts of residual level after you pay debt service.

Highway Allocation Bonds are taking a variety of state, federal and local transportation sources and packaging them together in a bond issue and then supporting it with your general obligation. That is known as a "double barrel" general obligation pledge. One advantage of the double barrel pledge is when rating agencies look at your general obligation, if you have a dedicated revenue source to pay debt, they usually view that more favorably. Revenue was identified as \$14,500,000, which produces a lot of bonding capacity. For a 30 year bond, it would produce \$213 million, but it would only be a partial fix. If you include some of the residual revenue, that number certainly appears to be enough to solve the shortfall. But these sources of funds are already included in the pay as you go transportation program. So to the extent that you are taking a dollar and paying debt service, you are taking that dollar away from construction. If you look at the average annual debt service amount of \$13,180,000, this analysis tells you that 13 times 9 years of shortfalls, over the first nine years of this bonding program, you would be pulling roughly \$127 million out of the pay as you go program to pay debt service.

Sales Tax has been a preferred local revenue source for urban areas that have transit systems, and more recently, it is increasingly being used at the local level to pay for roads and highways. It generates a lot of revenue, and it is perceived as a good credit source. An additional one-half cent levy was estimated to produce \$15 million, which leverages into \$185 million in bonding capacity over a 30 year basis. Mr. Miller stated that he understands that it would require legislation, but financially it would meet the needs.

“New Sales Tax Levied on all Auto Sales” is a limited sales tax and is going to be a difficult credit to sell to the bond market. He believes that you would have to have coverage of 1.50x. The amount of revenue estimated from an increase of 1% would produce \$2.8 million, which leverages into almost \$30 million over 30 years. This source by itself is a difficult credit and is not enough to close the funding gap, but could be used in a mix with other revenue sources.

The Existing Wheel Tax was estimated to be almost \$7.1 million in FY04. It is very similar to a registration fee and is a common source. It is a medium grade. You are shifting revenues from pay as you go capital. You could leverage it into \$75 million over 30 years.

The New Wheel Tax estimate was \$3 million from an additional \$15 per vehicle. It would leverage into \$32 million over 30 years. This source is a fine credit on its own. The amount of funds do not solve the problem, but would fit nicely in with other sources.

Under “City Income or Wage Tax,” city wages are approaching \$5 billion, so a half percent levy would produce \$25 million and would leverage into \$290 million over 30 years. You typically see it rolled into a municipality’s general obligation bonds. You can use a city income tax together with GO to provide that double barreled dedicated revenue. He evaluated it as a stand alone source, not as a GO source. This would require a legislative change. Mr. Wismer stated that he and Don Herz had discussed this issue, and they believe that it is highly unlikely that the legislature would permit either Lincoln or Omaha to impose a city sales tax without a referendum of the municipalities.

Occupation Fuel Tax is essentially a gas tax, and along with sales tax, it is the most common revenue source supporting transportation bond issues. It is a mid-grade credit. The estimate using a 5 cent per gallon levy would produce \$7.5 million per year which would leverage into almost \$86 million. This option together with the Highway Allocation Bonds would solve the entire funding gap.

“Special Assessment District” revenues are typically collected from the property tax rolls. A broad based City wide assessment district can be very highly rated. One might ask if you are doing a broad based city wide assessment, why not go to the general obligation bonds. One of the main reasons might be if you can avoid a referendum. He used \$1.75 million, which was not an estimate on our forms, but would leverage into \$23 million. Assessments are associated with transportation a lot under the theory that transportation infrastructure is an improvement and encourages economic development. Limited districts are a much different credits than a broad

based credit, and are not a good stand alone sources. They might be a nice revenue enhancement. Mr. Hesser questioned if the City could create a special assessment district city-wide for putting in the Beltways. Mr. Giovanni stated that properties have to be contiguous to the improvement. Mr. Seacrest stated that he believes that the only way this would work is if you assessed one lane abutting a section of land. Mr. Wismer stated that special assessments are based on the benefit to the property and added that most special assessments have been done in residential areas. Mr. Seacrest stated that one of the tests is the “special benefit test,” which is a tough test. He added that it would require the legislature to adopt a new standard that is not as “special benefit” driven.

Next, Mr. Miller reviewed a list of other sources of transportation financing sources. It included toll revenue, which is probably not applicable in Lincoln and would be a tough sell. Parking Revenue is another source that probably is not applicable in Lincoln. Non-ad valorem revenue is more a financing technique than a revenue source. A lot of municipalities will pledge all of their non-property tax revenue sources. They package them together to avoid a referendum. If you have a diverse mix, it can become a good bonding package. It is often associated with lease backed securities. Tax increment is a nice revenue enhancement. It is widely used, although it is not a good stand-alone bonding source.

Mr. Miller then reviewed the federal tools for financing transportation, although they may not be applicable here. TIFIA, which stands for Transportation Infrastructure Finance and Innovation Act, works great in limited cases but it has to be a single project of \$100 million. GARVEE, which stands for Grant Anticipation Revenue Vehicle, really just means leveraging federal highway funds, which to a certain extent has already been incorporated because our legislation authorizes highway allocation bonds. Design-build contracting is a contracting/construction matter and not a financing matter. Grant management may not necessarily apply at the local level.

Mr. Marvin asked how you would use TIFIA. Mr. Miller stated that it is a loan and credit enhancement program and is designed for big projects of regional significance and must meet subjective criteria. If you qualify, you can apply for low cost loans or credit enhancement. You have to have a draft environmental impact statement published, and you also have to pay \$25,000 to put in an application. There have only been 13 projects to date that have been approved. Ms. Jensen asked how this would help us. Mr. Miller stated that if you were coupling several sources together, instead of paying the high cost of capital, you could use TIFIA. You also avoid a public sale of debt. Mr. Seacrest stated that the two projects in Lincoln that are close to the \$100 million mark are heavily dependent on federal appropriation. He then asked if you pledge the local sources of money but you really want the federal dollars, are you shooting yourself in the foot because the Feds will say you went out and borrowed that money, why would we give you a federal appropriation. Mr. Miller responded by stating “yes” and “no.” You never want to do anything that turns away federal money. If you have good lobbyists, you can reallocate the money to a different project, but if they perceive that you are getting more projects in the ground, that is the bottom line for them.

Mr. Ecklund asked Mr. Miller if he had any recommendations for the work group. Mr. Miller stated that new taxes always hurt, but communities have made the political and community push to pursue sales taxes. There is less resistance than a property tax, per say. It generates a lot of money, the growth rates are pretty good, it is a good bonding source, and it seems to be more effective than other things.

Mr. Seacrest asked Mr. Miller what he is seeing nationwide between general citizens paying versus the end user paying. Mr. Miller stated that he is surprised that he has not seen more gas tax increases, but they are met with a lot of resistance. He added that toll roads are on the increase.

Mr. Korell stated that property taxes are not liked, and asked if that is common. Mr. Miller stated that property tax is the least frequently used source for a major transportation program primarily because property taxes seem to universally support schools, municipal general fund budgets and public safety, so by the time you fill all those needs, people generally do not look toward property taxes. He stated that the same is somewhat true of income taxes.

Mr. Korell asked Mr. Miller to comment on inflation, as the group has struggled with how to handle estimates. Mr. Miller stated that he has seen some long term finance plans get saved by the fact that the projects come in slower than anticipated and revenues accumulate. Mr. Korell then asked what kind of inflation rates are being built into projects. Mr. Miller stated that it depends on the stage of the project and the right-of-way. If you have to take a lot of right-of-way and go into condemnation, then the costs start escalating out of control.

Mr. Miller stated that although there is no pot of gold, it is good that the City is going through the process with community leaders to work through these issues.

Mr. Korell and the work group thanked Mr. Miller for the useful information and for coming to Lincoln.

Mr. Korell asked the group to review the information on the funding alternatives and then adjourned the meeting at 4:52 p.m.

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